

**CITY OF PRESTON  
PRESTON, IOWA**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS  
JUNE 30, 2005**

**CITY OF PRESTON  
PRESTON, IOWA  
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**CITY OF PRESTON  
PRESTON, IOWA**

**OFFICIALS**

Name	Title	Term Expires
Steve Ritenour	Mayor	January 2007
Richard Rossmann	Mayor Pro Tem/Council Member	January 2007
Ken Larson	Council Member	January 2007
Carol Milder	Council Member	January 2006
Dave Jargo	Council Member	January 2006
Curtis Kilburg	Council Member	January 2006
Brenda Tebbe	City Clerk/Treasurer	Indefinite
James Bear	City Attorney	Indefinite

## **INDEPENDENT AUDITOR'S REPORT**

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Preston, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Preston. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the remaining aggregate fund information of the City of Preston as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 19, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 29 through 31 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the 2005 basic financial statements taken as a whole. The 2005 other supplementary information included in Schedule 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2005 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2005, taken as a whole.

The basic financial statements of the City of Preston for the three years ended June 30, 2004 (none of which are presented herein) were audited by other auditors whose reports dated August 12, 2004, August 13, 2003, and August 15, 2002, expressed unqualified opinions on those statements. Their reports stated that, in their opinion, such other supplementary information (Schedule 6) was fairly stated in all material respects in relation to the basic financial statements for those years then ended, taken as a whole.

O'CONNOR, BROOKS & CO., P.C.

Dubuque, Iowa  
August 19, 2005

**CITY OF PRESTON  
PRESTON, IOWA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Preston provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

**2005 FINANCIAL HIGHLIGHTS**

- Revenues of the City's governmental activities decreased 1.5% or \$6,156 from fiscal 2004 to fiscal 2005. The receipts included \$134,029 in property tax, \$56,616 in option tax, \$78,905 in road use tax funds, and \$41,998 in other intergovernmental revenue.
- Disbursements decreased 2.1% or \$44,433 in fiscal 2005 from fiscal 2004. Electric and garbage disbursements decreased \$96,171 and \$73,021, respectively, while public works, water, and gas increased \$49,172, \$91,415, and \$37,137, respectively.
- The City's total cash basis net assets decreased 8.4% or \$120,051 from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities increased \$29,866. The assets of the business type activities decreased by \$149,917.

**USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements as well as other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds, proprietary funds, and internal service funds.

### **Basis of Accounting**

The city maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

### **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

#### *Government-wide Financial Statement*

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government and debt service. Property tax and payment in lieu of taxes finance most of these activities.
- Business type activities of the City include water, sewer, electric, gas, garbage, and customer deposits. These activities are financed primarily by user charges.

#### *Fund Financial Statements*

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. They focus on how money flows into and out of the funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund; 2) the Special Revenue Funds, such as Road Use Tax and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Funds. Enterprise Funds are used to report business type activities. The City maintains six Enterprise Funds to provide separate information for the water, sewer, electric, gas, garbage, and customer deposits funds. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from \$423,513 to \$453,379. The analysis that follows focuses on the changes in cash balances for governmental activities.



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Changes in Cash Basis Net Assets of Governmental Activities

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	Year Ended June 30,	
	----- 2005 -----	----- 2004 -----
Receipts and Transfers:		
Program receipts:		
Charges for service	\$ 32,368	\$ 41,225
Operating grants, contributions, and restricted interest	127,452	121,671
General receipts:		
Property tax	134,029	137,691
Local option sales tax	56,616	60,174
Unrestricted investment earnings	9,072	2,756
Miscellaneous	21,346	54,630
Sale of capital assets	31,108	---
Transfers, net	60,000	48,000
	-----	-----
Total Receipts and Transfers	\$ 471,991	\$ 466,147
	-----	-----
Disbursements:		
Public safety	\$ 143,485	\$ 138,002
Public works	143,981	94,809
Health and social services	550	525
Culture and recreation	107,733	89,902
Community and economic development	18,489	22,359
General government	52,559	57,024
Debt service	14,412	16,819
	-----	-----
Total Disbursements	\$ 481,209	\$ 419,440
	-----	-----
Increase (Decrease) in Cash Basis Net Assets	\$ (9,218)	\$ 46,707
	-----	-----
Cash Basis Net Assets Beginning of Year	\$ 423,513	\$ 376,806
Prior Period Adjustment	39,084	---
	-----	-----
Cash Basis Net Assets Beginning of Year, as Restated	\$ 462,597	\$ 376,806
	-----	-----
Cash Basis Net Assets End of Year	\$ 453,379	\$ 423,513
	=====	=====

Total receipts for the City's governmental activities increased by 1.3% or \$5,844. The total cost of all programs and services increased by \$61,769 or 14.7%, with no new programs added this year.

The cost of all governmental activities this year was \$481,209 compared to \$419,440 last year. However, as shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was only \$321,389 because some of the cost was paid by those directly benefited from the programs (\$32,368) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$127,452). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for services remained stable at \$162,896 in fiscal year 2004 and \$159,820 in fiscal year 2005. The City paid for the remaining "public benefit" portion of governmental activities with \$321,389 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

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Changes in Cash Basis Net Assets of Business Type Activities

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	Year Ended June 30,	
	2005	2004
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 98,593	\$ 97,527
Electric	654,059	661,506
Gas	550,571	501,790
Sewer	140,637	139,030
Garbage	97,243	95,827
Customer deposits	4,695	4,190
Operating grants, contributions and restricted interest	---	150
General Receipts:		
Unrestricted interest on investments	16,899	9,174
Miscellaneous	16,227	17,236
Transfers, net	(60,000)	(48,000)
	-----	-----
Total Receipts	\$1,518,924	\$1,478,430
	-----	-----
Disbursements:		
Water	\$ 180,764	\$ 89,349
Electric	691,057	787,228
Gas	530,533	493,396
Sewer	170,125	147,776
Garbage	92,589	165,610
Customer deposits	3,773	2,818
	-----	-----
Total Disbursements	\$1,668,841	\$1,686,177
	-----	-----
Increase (Decrease) in Cash Basis Net Assets	\$ (149,917)	\$ (207,747)
Cash Basis Net Assets Beginning of Year	1,012,230	1,219,977
	-----	-----
Cash Basis Net Assets End of Year	\$ 862,313	\$1,012,230
	=====	=====

Total business type activities disbursements for the fiscal year were \$1,668,841 compared to \$1,686,177 last year. The decrease in electric was due primarily to the completion of the electric project started in the previous year. The decrease in water was due to the completion of the Water Tower Modifications/Painting Project.

### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Preston completed this year, its governmental funds reported a combined fund balance of \$447,808, an increase of \$29,189 above last year's total. The following is the reason for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased from \$40,398 to \$66,075. The increase of \$25,677 is due primarily to an increase in "in lieu of tax" payments from the electric and gas utilities.

The Road Use Tax Fund cash balance decreased \$10,172 to \$311,210 for the fiscal year. The City intends to use this money to upgrade the condition of all City roads.

### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance decreased \$80,357 due primarily to the Water Tower Modifications/Painting Project.
- The Electric Fund cash balance decreased \$48,886 due primarily to completion of the Electric Project.
- The Gas Fund cash balance did not change significantly during fiscal year 2005.
- The Sewer Fund cash balance decreased \$28,871 due to the fact that the rates need to be adjusted.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget only once during the fiscal year. It was amended and approved on May 23, 2005, to provide for additional disbursements in certain City departments. The City had sufficient cash balances to absorb these additional costs. The City had anticipated significant disbursements in the Community and Economic Development function. However, these projects were not completed because the City did not receive the grant monies needed to finance them.

## DEBT ADMINISTRATION

At June 30, 2005, the City had \$806,088 in bonds and other long-term debt, compared to \$933,260 last year, as shown below.

Outstanding Debt at Year End		
	June 30,	
	2005	2004
General Obligation Note	\$ 84,800	\$ 95,400
Revenue Bonds	298,000	340,000
Revenue Note	385,000	450,000
Promissory Note	38,288	47,860
Total	\$ 806,088	\$ 933,260

Debt decreased as a result of principal payments made on existing debt. The City does not anticipate any new debt.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$84,800 is significantly below its constitutional debt limit of \$1.6 million.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Numerous issues were taken into account when adopting the budget for fiscal year 2005. Amount available for appropriation in the operating budget will be \$2,047,923, a decrease of 8% over the final 2005 budget. Property taxes are expected to stay the same with the exception of the assessment. The City will increase their contribution of in lieu of taxes to complete any projects that are expected to arise. The City has added two possible major projects for the 2006 budget.

If these estimates are realized, the City's budgeted cash balance is expected to remain relatively unchanged by the close of 2005.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Brenda Tebbe, City Clerk/Treasurer, P.O. Box 37, Preston, Iowa 52069.

**BASIC  
FINANCIAL  
STATEMENTS**

**CITY OF PRESTON  
PRESTON, IOWA**

**STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005**

	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
<b>Functions/Programs:</b>							
Governmental Activities:							
Public safety	\$ 143,485	\$ 21,875	\$ 25,166	\$ ---	\$ (96,444)	\$ ---	\$ (96,444)
Public works	143,981	1,353	78,905	---	(63,723)	---	(63,723)
Health and social services	550	---	---	---	(550)	---	(550)
Culture and recreation	107,733	4,349	23,381	---	(80,003)	---	(80,003)
Community and economic development	18,489	---	---	---	(18,489)	---	(18,489)
General government	52,559	4,791	---	---	(47,768)	---	(47,768)
Debt service	14,412	---	---	---	(14,412)	---	(14,412)
Total Governmental Activities	\$ 481,209	\$ 32,368	\$ 127,452	\$ ---	\$ (321,389)	\$ ---	\$ (321,389)
Business Type Activities:							
Water	\$ 180,764	\$ 98,593	\$ ---	\$ ---	\$ ---	\$ (82,171)	\$ (82,171)
Electric	691,057	654,059	---	---	---	(36,998)	(36,998)
Gas	530,533	550,571	---	---	---	20,038	20,038
Sewer	170,125	140,637	---	---	---	(29,488)	(29,488)
Garbage	92,589	97,243	---	---	---	4,654	4,654
Customer deposits	3,773	4,695	---	---	---	922	922
Total Business Type Activities	\$ 1,668,841	\$ 1,545,798	\$ ---	\$ ---	\$ ---	\$ (123,043)	\$ (123,043)
Total	\$ 2,150,050	\$ 1,578,166	\$ 127,452	\$ ---	\$ (321,389)	\$ (123,043)	\$ (444,432)

See notes to financial statements.

**EXHIBIT "A" (continued)****CITY OF PRESTON  
PRESTON, IOWA****STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005**

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
<b>General Receipts:</b>							
Property tax levied for:							
General purposes					\$ 134,029	\$ ---	\$ 134,029
Other city tax					56,616	---	56,616
Unrestricted interest on investments					9,072	16,899	25,971
Miscellaneous					21,346	16,227	37,573
Sale of capital assets					31,108	---	31,108
Transfers					60,000	(60,000)	---
Total General Receipts and Transfers					\$ 312,171	\$ (26,874)	\$ 285,297
Change in Cash Basis Net Assets					\$ (9,218)	\$ (149,917)	\$ (159,135)
Cash Basis Net Assets Beginning of Year					\$ 423,513	\$ 1,012,230	\$ 1,435,743
Prior Period Adjustment					39,084	---	39,084
Cash Basis Net Assets Beginning of Year, as restated					\$ 462,597	\$ 1,012,230	\$ 1,474,827
Cash Basis Net Assets End of Year					\$ 453,379	\$ 862,313	\$ 1,315,692
<b>Cash Basis Net Assets</b>					=====	=====	=====
Restricted:							
Streets					\$ 311,210	\$ ---	\$ 311,210
Library					39,233	---	39,233
Debt service					5,632	108,663	114,295
Other purposes					---	150	150
Unrestricted					97,304	753,500	850,804
Total Cash Basis Net Assets					\$ 453,379	\$ 862,313	\$ 1,315,692

See notes to financial statements.

**CITY OF PRESTON  
PRESTON, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005**

	General	Special Revenue ----- Road Use Tax	Other Nonmajor Governmental Funds	Total
	-----	-----	-----	-----
<b>Receipts:</b>				
Property tax	\$ 134,029	\$ ---	\$ ---	\$ 134,029
Other city tax	55,086	---	---	55,086
Licenses and permits	2,710	---	---	2,710
Use of money and property	8,162	---	2,991	11,153
Intergovernmental	41,998	78,905	---	120,903
Charges for services	25,927	---	---	25,927
Special assessments	1,353	---	---	1,353
Miscellaneous	24,944	---	4,778	29,722
	-----	-----	-----	-----
Total Receipts	\$ 294,209	\$ 78,905	\$ 7,769	\$ 380,883
	-----	-----	-----	-----
<b>Disbursements:</b>				
Operating:				
Public safety	\$ 143,485	\$ ---	\$ ---	\$ 143,485
Public works	55,581	89,077	---	144,658
Health and social services	550	---	---	550
Culture and recreation	107,332	---	401	107,733
Community and economic development	18,489	---	---	18,489
General government	52,559	---	---	52,559
Debt service	---	---	14,412	14,412
	-----	-----	-----	-----
Total Disbursements	\$ 377,996	\$ 89,077	\$ 14,813	\$ 481,886
	-----	-----	-----	-----
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ (83,787)	\$ (10,172)	\$ (7,044)	\$ (101,003)
	-----	-----	-----	-----
<b>Other Financing Sources (Uses):</b>				
Sale of capital assets	\$ 31,108	\$ ---	\$ ---	\$ 31,108
Transfers in	78,356	---	14,412	92,768
Transfers out	---	---	(32,768)	(32,768)
	-----	-----	-----	-----
Total Other Financing Sources (Uses)	\$ 109,464	\$ ---	\$ (18,356)	\$ 91,108
	-----	-----	-----	-----
Net Change in Cash Balances	\$ 25,677	\$ (10,172)	\$ (25,400)	\$ (9,895)
	-----	-----	-----	-----
Cash Balances Beginning of Year	\$ 40,398	\$ 321,382	\$ 56,839	\$ 418,619
Prior Period Adjustment	---	---	39,084	39,084
	-----	-----	-----	-----
Cash Balances Beginning of Year, as restated	\$ 40,398	\$ 321,382	\$ 95,923	\$ 457,703
	-----	-----	-----	-----
Cash Balances End of Year	\$ 66,075	\$ 311,210	\$ 70,523	\$ 447,808
	=====	=====	=====	=====

See notes to financial statements.



**CITY OF PRESTON  
PRESTON, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005**

	General	Special Revenue ----- Road Use Tax	Other Nonmajor Governmental Funds	Total
	-----	-----	-----	-----
<b>Cash Basis Fund Balances:</b>				
Reserved:				
Debt service	\$       ---	\$       ---	\$     5,632	\$     5,632
Unreserved:				
Designated, special revenue funds	---	---	25,658	25,658
Undesignated:				
General fund	66,075	---	---	66,075
Special revenue funds	---	311,210	39,233	350,443
	-----	-----	-----	-----
Total Cash Basis Fund Balances	\$    66,075	\$   311,210	\$     70,523	\$   447,808
	=====	=====	=====	=====

See notes to financial statements.

**CITY OF PRESTON  
PRESTON, IOWA**

**RECONCILIATION OF THE STATEMENT  
OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES  
IN CASH BALANCES TO THE STATEMENT OF ACTIVITIES  
AND NET ASSETS - GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005**

<b>Total governmental funds cash balances</b>	\$ 447,808
---	------------

*Amounts reported for governmental activities in the Statement of  
Activities and Net Assets are different because:*

The Internal Service Funds are used by management to charge the costs of the shed maintenance and to charge the reserve for insurance premiums to the individual funds. The assets of the Internal Service Funds are included in governmental activities in the Statement of Net Assets.

5,571

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<b>Cash basis net assets of governmental activities</b>	\$ 453,379
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<b>Net change in cash balances</b>	\$ (9,895)
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*Amounts reported for governmental activities in the Statement of  
Activities and Net Assets are different because:*

The Internal Service Funds are used by management to charge the costs of shed maintenance and to charge the reserve for insurance premiums to the individual funds. The change in net assets of the Internal Service Funds is reported with governmental activities.

677

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<b>Change in cash balance of governmental activities</b>	\$ (9,218)
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See notes to financial statements.

**CITY OF PRESTON  
PRESTON, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES -  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005**

	Enterprise Funds						
	Water	Electric	Gas	Sewer	Other Nonmajor Enterprise Funds	Total	Internal Service Funds
	-----	-----	-----	-----	-----	-----	-----
<b>Operating Receipts:</b>							
Use of money and property	\$ 1,481	\$ 6,845	\$ 7,401	\$ 301	\$ 871	\$ 16,899	\$ ---
Charges for services	98,593	654,059	550,571	140,637	97,243	1,541,103	5,000
	-----	-----	-----	-----	-----	-----	-----
Total Operating Receipts	\$ 100,074	\$ 660,904	\$ 557,972	\$ 140,938	\$ 98,114	\$ 1,558,002	\$ 5,000
	-----	-----	-----	-----	-----	-----	-----
<b>Operating Disbursements:</b>							
Salaries and wages	\$ 32,916	\$ 75,269	\$ 35,924	\$ 28,320	\$ 25,980	\$ 198,409	\$ ---
Employee benefits and costs	14,137	42,674	23,365	12,048	18,302	110,526	---
Staff development	919	1,378	4,838	---	182	7,317	---
Repairs, maintenance and utilities	10,869	40,617	2,807	29,375	4,305	87,973	228
Contractual services	17,509	365,830	444,257	14,327	41,268	883,191	---
Commodities	11,815	30,864	11,293	17,694	5,846	77,512	2,067
Capital outlay	92,734	39,999	8,590	10,516	1,020	152,859	---
Debt service	---	95,102	---	57,980	---	153,082	---
	-----	-----	-----	-----	-----	-----	-----
Total Operating Disbursements	\$ 180,899	\$ 691,733	\$ 531,074	\$ 170,260	\$ 96,903	\$ 1,670,869	\$ 2,295
	-----	-----	-----	-----	-----	-----	-----
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	\$ (80,825)	\$ (30,829)	\$ 26,898	\$ (29,322)	\$ 1,211	\$ (112,867)	\$ 2,705
	-----	-----	-----	-----	-----	-----	-----
<b>Nonoperating Receipts:</b>							
Miscellaneous	468	11,943	533	451	7,527	20,922	---
	-----	-----	-----	-----	-----	-----	-----

See notes to financial statements.

**CITY OF PRESTON  
PRESTON, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES -  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005**

	Enterprise Funds						
	Water	Electric	Gas	Sewer	Other Nonmajor Enterprise Funds	Total	Internal Service Funds
	-----	-----	-----	-----	-----	-----	-----
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ (80,357)	\$ (18,886)	\$ 27,431	\$ (28,871)	\$ 8,738	\$ (91,945)	\$ 2,705
Transfers in	---	---	---	---	---	---	---
Transfers out	---	(30,000)	(30,000)	---	---	(60,000)	---
	-----	-----	-----	-----	-----	-----	-----
Net Change in Cash Balances	\$ (80,357)	\$ (48,886)	\$ (2,569)	\$ (28,871)	\$ 8,738	\$ (151,945)	\$ 2,705
Cash Balances Beginning of Year	151,926	379,304	415,353	22,207	45,326	1,014,116	3,008
	-----	-----	-----	-----	-----	-----	-----
Cash Balances End of Year	\$ 71,569	\$ 330,418	\$ 412,784	\$ (6,664)	\$ 54,064	\$ 862,171	\$ 5,713
	=====	=====	=====	=====	=====	=====	=====
<b>Cash Basis Fund Balances:</b>							
Restricted:							
Debt service	\$ ---	\$ 115,327	\$ ---	\$ (6,664)	\$ ---	\$ 108,663	\$ ---
Other purposes	---	150	---	---	---	150	---
Unrestricted	71,569	214,941	412,784	---	54,064	753,358	5,713
	-----	-----	-----	-----	-----	-----	-----
Total Cash Basis Fund Balances	\$ 71,569	\$ 330,418	\$ 412,784	\$ (6,664)	\$ 54,064	\$ 862,171	\$ 5,713
	=====	=====	=====	=====	=====	=====	=====

See notes to financial statements.

**CITY OF PRESTON  
PRESTON, IOWA**

**RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS,  
DISBURSEMENTS, AND CHANGES IN CASH BALANCES  
TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005**

<b>Total enterprise funds cash balances</b>	\$ 862,171
<i>Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:</i>	
The Internal Service Funds are used by management to charge the costs of the shed maintenance and to charge the reserve for insurance premiums to the individual funds. The assets of the Internal Service Funds are included in business type activities in the Statement of Net Assets.	
	142
	-----
<b>Cash basis net assets of business type activities</b>	\$ 862,313
	=====
<b>Net change in cash balances</b>	\$ (151,945)
<i>Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:</i>	
The Internal Service Funds are used by management to charge the costs of shed maintenance and to charge the reserve for insurance premiums to the individual funds. The change in net assets of the Internal Service Funds is reported with business type activities.	
	2,028
	-----
<b>Change in cash balance of business type activities</b>	\$ (149,917)
	=====

See notes to financial statements.

**CITY OF PRESTON  
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**Note 1 - Summary of Significant Accounting Policies:**

The City of Preston is a political subdivision of the State of Iowa located in Jackson County. It was first incorporated in 1890 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides, water, sewer, electric, gas, and garbage utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of Preston has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City has determined that there are no component units which meet the Governmental Accounting Standards Board criteria for inclusion in the City's financial statements.

**Jointly Governed Organizations**

The City also participates in one jointly governed organization that provides goods or services to the citizenry of the City but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following board: Jackson County Sanitation Disposal Agency.

**CITY OF PRESTON  
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**Note 1 - Summary of Significant Accounting Policies: (Continued)**

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds and enterprise funds are aggregated and reported as nonmajor governmental funds and nonmajor enterprise funds.

The City reports the following major governmental funds:

**CITY OF PRESTON  
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**Note 1 - Summary of Significant Accounting Policies: (Continued)**

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Electric Fund accounts for the operation and maintenance of the City's electric system.

The Gas Fund accounts for the operation and maintenance of the City's gas system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The City also reports the following additional proprietary fund:

The Internal Service Funds are utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

**C. Measurement Focus and Basis of Accounting**

The City of Preston maintains its financial records on the basis of cash receipts and disbursements, and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.



**CITY OF PRESTON  
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**Note 1 - Summary of Significant Accounting Policies: (Continued)**

Proprietary funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation, debt service, and business type activities functions.

**Note 2 - Cash and Pooled Investments:**

The City's deposits in banks at June 30, 2005, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2005, the City had the following investments:

<u>Type</u>	<u>Fair Value</u>	<u>Maturity</u>
Maquoketa Area Foundation	\$ 39,233	N/A
	=====	

**CITY OF PRESTON  
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**Note 2 - Cash and Pooled Investments: (Continued)**

Interest Rate Risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

**Note 3 - Bonds and Notes Payable:**

Annual debt service requirements to maturity for the City's indebtedness are as follows:

Year Ending June 30,	General Obligation Note		Revenue Bonds		Revenue Note	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 10,600	\$ 3,392	\$ 43,000	\$ 13,942	\$ 70,000	\$ 17,930
2007	10,600	2,968	43,000	11,884	75,000	14,955
2008	10,600	2,544	44,000	9,800	75,000	11,618
2009	10,600	2,120	50,000	7,671	80,000	8,130
2010-2013	42,400	4,240	118,000	8,526	85,000	4,250
Total	\$ 84,800	\$ 15,264	\$ 298,000	\$ 51,823	\$ 385,000	\$ 56,883

**CITY OF PRESTON  
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**Note 3 - Bonds and Notes Payable: (Continued)**

Year Ending June 30,	Promissory Note		Total	
	Principal	Interest	Principal	Interest
2006	\$ 9,572	---	\$ 133,172	\$ 35,264
2007	9,572	---	138,172	29,807
2008	9,572	---	139,172	23,962
2009	9,572	---	150,172	17,921
2010-2013	---	---	245,400	17,016
Total	\$ 38,288	\$ ---	\$ 806,088	\$ 123,970

The resolutions providing for the issuance of the sewer revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the Sewer Fund, and the bondholders hold a lien on the future earnings of the fund.
- (b) Establish a Sinking Fund and make a monthly cash transfer equal to 1/6 of the installment of interest coming due on the next interest payment date plus 1/12 of the installment of principal coming due on the bonds on the next succeeding principal payment date.
- (c) Payments to a Sewer Reserve Account are required to maintain reserves equal to the lesser of the maximum amount of principal and interest coming due in any succeeding fiscal year or ten percent of the principal amount then outstanding.

The City made the required transfers into the Sewer Reserve Account; however, the City's Sewer Fund balance is insufficient to meet the Sewer Reserve Account and Sinking Fund requirements.

The resolutions providing for the issuance of the revenue note includes the following provisions:

- (a) The note will only be redeemed from the future earnings of the enterprise activity, and the note holders hold a lien on the future earnings of the funds.

**CITY OF PRESTON  
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**Note 3 - Bonds and Notes Payable: (Continued)**

- (b) Sufficient monthly transfers shall be made to the Sinking Fund for the purpose of making the note principal and interest payments when due.
- (c) At delivery of the note, a sum equal to \$58,000 shall be made to the Reserve Fund for the purpose of making the note principal and interest payments if deposits in the Sinking Fund are insufficient to make such payments.
- (d) Additional monthly transfers of \$2,000 to the Improvement Fund shall be made until a specific minimum balance of \$50,000 has been accumulated. This account is restricted for the purpose of paying for the cost of capital improvements and extensions to the utility.
- (e) All funds remaining after first making the required payments into the Sinking Fund, the Reserve Fund, and Improvement Fund, and after the Reserve Fund contains the required Reserve Fund balance, the net revenues will be set aside into the Surplus Fund.

The City is in compliance with the provisions noted above.

**Note 4 - Pension and Retirement Benefits:**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.907%, respectively, and for the year ended 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$20,238, \$19,933 and \$18,840, respectively, equal to the required contributions for each year.

**CITY OF PRESTON  
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**Note 5 - 28E Agreement:**

On July 26, 2004, the City entered into a 28E Agreement with the City of Miles to provide police services to the City of Miles.

**Note 6 - Compensated Absences:**

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. Sick leave and personal leave accumulates but is not payable upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2005, primarily relating to the General Fund, is as follows:

Type of Benefit -----	Amount -----
Vacation	\$ 8,142 =====

The liability has been computed based on rates of pay as of June 30, 2005.

**Note 7 - Interfund Transfers:**

The detail of interfund transfers for the year ended June 30, 2005, is as follows:

Transfer to -----	Transfer from -----	Amount -----
General	Special Revenue:	
	Library Trust	\$ 12,026
	Library Foundation	6,330
	Enterprise:	
	Electric	30,000
	Gas	30,000
Debt Service	Special Revenue:	
	Fire Department Trust	14,412
		-----
		\$ 92,768 =====

Transfers are used to (1) move resources from the fund that statute or budget requires to collect them to the fund that statute or budget requires to disburse them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) move "in lieu of tax" payments from the enterprise funds.

**CITY OF PRESTON  
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**Note 8 - Risk Management:**

The City of Preston is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Note 9 - Construction in Progress:**

The City entered into a contract for water tower modifications and repainting in the amount of \$93,550. Change orders executed during the year were \$13,225. At June 30, 2005, \$91,190 of the contract was completed. The remaining amount will be paid as work on the project progresses.

The City entered into a contract for the extension of West Street in the amount of \$68,975. Change orders executed during the year were \$(7,470). At June 30, 2005, \$58,430 of the contract was completed. The remaining amount will be paid as work on the project progresses.

**Note 10 - General Fund Account Balances:**

The account balances of the General Fund as of June 30, 2005, are as follows:

General	\$ 65,659
Police capital account	416
	-----
Total General Fund Balance	\$ 66,075
	=====

**Note 11 - Designation of Fund Balances:**

	Special Revenue
	-----
Library purchases	\$ 9,456
Fire department purchases	16,202
	-----
	\$ 25,658
	=====

**CITY OF PRESTON  
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**Note 12 - Deficit Fund Balance:**

The Enterprise Fund, Sewer, had a deficit fund balance of \$6,664 at June 30, 2005. The deficit fund balance was the result of expenditures in excess of charges for service. The deficit will be eliminated by future charges for service.

**Note 13 - Segment Information:**

The government issued revenue bonds to finance its sewer department, which operates the City's sewer operations. The Sewer Fund was created to fulfill the required covenants of the revenue bonds. Summary financial information for the Sewer Fund is presented below.

Statement of Cash Receipts, Disbursements, and Changes in Cash Balances

Operating receipts	\$ 140,938
Operating disbursements	(170,260)
	-----
Operating loss	\$ (29,322)
Nonoperating receipts	451
	-----
Net Change in Cash Balances	\$ (28,871)
Cash Balances Beginning of Year	22,207
	-----
Cash Deficit End of Year	\$ (6,664)
	=====
Cash Basis Fund Balances:	
Restricted for Debt Service	\$ (6,664)
	=====

**Note 14 - Prior Period Adjustment:**

During the year, it was determined additional funds should be included in the City's financial statements. The prior period adjustment records the balance of these funds at July 1, 2004.

**REQUIRED  
SUPPLEMENTARY  
INFORMATION**



**CITY OF PRESTON  
PRESTON, IOWA**

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND  
CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -  
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2005**

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Budgeted	Net	Budgeted Amounts		Final to Net Variance
	-----	-----	-----	-----	Original	Final	-----
<b>Receipts:</b>							
Property tax	\$ 134,029	\$ ---	\$ ---	\$ 134,029	\$ 133,214	\$ 133,214	\$ 815
Other city tax	55,086	---	---	55,086	63,061	63,061	(7,975)
Licenses and permits	2,710	---	---	2,710	2,600	2,600	110
Use of money and property	11,153	16,899	---	28,052	99,166	99,166	(71,114)
Intergovernmental	120,903	---	---	120,903	253,000	253,000	(132,097)
Charges for services	25,927	1,546,103	5,000	1,567,030	1,540,762	1,740,762	(173,732)
Special assessments	1,353	---	---	1,353	3,500	3,500	(2,147)
Miscellaneous	29,722	20,922	---	50,644	10,000	10,000	40,644
	-----	-----	-----	-----	-----	-----	-----
Total Receipts	\$ 380,883	\$ 1,583,924	\$ 5,000	\$ 1,959,807	\$ 2,105,303	\$ 2,305,303	\$ (345,496)
	-----	-----	-----	-----	-----	-----	-----
<b>Disbursements:</b>							
Public safety	\$ 143,485	\$ ---	\$ ---	\$ 143,485	\$ 137,668	\$ 137,668	\$ (5,817)
Public works	144,658	---	---	144,658	125,340	125,340	(19,318)
Health and social services	550	---	---	550	550	550	---
Culture and recreation	107,733	---	---	107,733	77,555	77,555	(30,178)
Community and economic development	18,489	---	---	18,489	202,757	202,757	184,268
General government	52,559	---	---	52,559	61,170	61,170	8,611
Debt service	14,412	---	---	14,412	---	---	(14,412)
Business type activities	---	1,670,869	---	1,670,869	1,412,630	1,612,630	(58,239)
Non-program	---	2,295	2,295	---	---	---	---
	-----	-----	-----	-----	-----	-----	-----
Total Disbursements	\$ 481,886	\$ 1,673,164	\$ 2,295	\$ 2,152,755	\$ 2,017,670	\$ 2,217,670	\$ 64,915
	-----	-----	-----	-----	-----	-----	-----

See accompanying independent auditor's report.

**CITY OF PRESTON  
PRESTON, IOWA**

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND  
CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS)-  
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2005**

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Budgeted	Net	Budgeted Amounts		Final to Net Variance
	-----	-----	-----	-----	Original	Final	-----
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ (101,003)	\$ (89,240)	\$ 2,705	\$ (192,948)	\$ 87,633	\$ 87,633	\$ (280,581)
Other Financing Sources (Uses), Net	91,108	(60,000)	---	31,108	---	---	31,108
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	\$ (9,895)	\$ (149,240)	\$ 2,705	\$ (161,840)	\$ 87,633	\$ 87,633	\$ (249,473)
Balances, Beginning of Year	\$ 418,619	\$ 1,017,124	\$ 3,008	\$ 1,432,735	\$ 1,778,647	\$ 1,778,647	\$ (345,912)
Prior Period Adjustment	39,084	---	---	39,084	---	---	39,084
Balances, Beginning of Year, As Restated	\$ 457,703	\$ 1,017,124	\$ 3,008	\$ 1,471,819	\$ 1,778,647	\$ 1,778,647	\$ (306,828)
Balances, End of Year	\$ 447,808	\$ 867,884	\$ 5,713	\$ 1,309,979	\$ 1,866,280	\$ 1,866,280	\$ (556,301)
	=====	=====	=====	=====	=====	=====	=====

See accompanying independent auditor's report.

**CITY OF PRESTON  
PRESTON, IOWA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY REPORTING**

**JUNE 30, 2005**

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, there was one budget amendment that increased budgeted receipts and disbursements by \$200,000. The budget amendment is reflected in the final budgeted amounts.

During the year and at the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation, debt service, and business type activities functions.

**OTHER  
SUPPLEMENTARY  
INFORMATION**

**SCHEDULE "1"**

**CITY OF PRESTON  
PRESTON, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES  
IN CASH BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005**

	Special Revenue				
	Library Trust	Library Foundation	Fire Department Trust	Debt Service	Total
<b>Receipts:</b>					
Use of money and property	\$ 214	\$ 2,180	\$ 512	\$ 85	\$ 2,991
Miscellaneous	78	4,700	---	---	4,778
Total Receipts	\$ 292	\$ 6,880	\$ 512	\$ 85	\$ 7,769
<b>Disbursements:</b>					
Operating:					
Culture and recreation	\$ ---	\$ 401	\$ ---	\$ ---	\$ 401
Debt service	---	---	---	14,412	14,412
Total Disbursements	\$ ---	\$ 401	\$ ---	\$ 14,412	\$ 14,813
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ 292	\$ 6,479	\$ 512	\$ (14,327)	\$ (7,044)
<b>Other Financing Sources (Uses):</b>					
Transfers in	\$ ---	\$ ---	\$ ---	\$ 14,412	\$ 14,412
Transfers out	(12,026)	(6,330)	(14,412)	---	(32,768)
Total Other Financing Sources (Uses)	\$ (12,026)	\$ (6,330)	\$ (14,412)	\$ 14,412	\$ (18,356)
Net Change in Cash Balances	\$ (11,734)	\$ 149	\$ (13,900)	\$ 85	\$ (25,400)
Cash Balances Beginning of Year	\$ 21,190	\$ ---	\$ 30,102	\$ 5,547	\$ 56,839
Prior Period Adjustment	---	39,084	---	---	39,084
Cash Balances Beginning of Year, as restated	\$ 21,190	\$ 39,084	\$ 30,102	\$ 5,547	\$ 95,923
Cash Balances End of Year	\$ 9,456	\$ 39,233	\$ 16,202	\$ 5,632	\$ 70,523
<b>Cash Basis Fund Balances:</b>					
Reserved:					
Debt service	\$ ---	\$ ---	\$ ---	\$ 5,632	\$ 5,632
Unreserved:					
Designated	9,456	---	16,202	---	25,658
Undesignated	---	39,233	---	---	39,233
Total Cash Basis Fund Balances	\$ 9,456	\$ 39,233	\$ 16,202	\$ 5,632	\$ 70,523

See accompanying independent auditor's report.

**SCHEDULE "2"**

**CITY OF PRESTON  
PRESTON, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
NONMAJOR PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005**

	Enterprise Funds		
	Garbage	Customer Deposits	Total
<b>Operating Receipts:</b>			
Use of money and property	\$ 710	\$ 161	\$ 871
Charges for service	97,243	---	97,243
Total Operating Receipts	\$ 97,953	\$ 161	\$ 98,114
<b>Operating Disbursements:</b>			
Salaries and wages	\$ 25,980	\$ ---	\$ 25,980
Employee benefits and costs	18,302	---	18,302
Staff development	182	---	182
Repairs, maintenance and utilities	4,305	---	4,305
Contractual services	37,495	3,773	41,268
Commodities	5,846	---	5,846
Capital outlay	1,020	---	1,020
Total Operating Disbursements	\$ 93,130	\$ 3,773	\$ 96,903
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	\$ 4,823	\$ (3,612)	\$ 1,211
<b>Nonoperating Receipts:</b>			
Miscellaneous	2,832	4,695	7,527
Net Change in Cash Balances	\$ 7,655	\$ 1,083	\$ 8,738
Cash Balances Beginning of Year	36,797	8,529	45,326
Cash Balances End of Year	\$ 44,452	\$ 9,612	\$ 54,064
<b>Cash Basis Fund Balances:</b>			
Unrestricted	\$ 44,452	\$ 9,612	\$ 54,064

See accompanying independent auditor's report.

**SCHEDULE "3"**

**CITY OF PRESTON  
PRESTON, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES - INTERNAL SERVICE FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005**

	Shed Reserve	Insurance Reserve	Total
	-----	-----	-----
<b>Operating Receipts:</b>			
Charges for service	\$ 5,000	\$ ---	\$ 5,000
	-----	-----	-----
<b>Operating Disbursements:</b>			
Repairs, maintenance and utilities	\$ 228	\$ ---	\$ 228
Commodities	2,067	---	2,067
	-----	-----	-----
Total Operating Disbursements	\$ 2,295	\$ ---	\$ 2,295
	-----	-----	-----
Net Change in Cash Balances	\$ 2,705	\$ ---	\$ 2,705
Cash Balances Beginning of Year	(2,514)	5,522	3,008
	-----	-----	-----
Cash Balances End of Year	\$ 191	\$ 5,522	\$ 5,713
	=====	=====	=====
<b>Cash Basis Fund Balances:</b>			
Unreserved	\$ 191	\$ 5,522	\$ 5,713
	=====	=====	=====

See accompanying independent auditor's report.

**CITY OF PRESTON  
PRESTON, IOWA  
SCHEDULE OF INDEBTEDNESS  
YEAR ENDED JUNE 30, 2005**

**SCHEDULE "4"**

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
Revenue Bonds:									
Sewer	August 1, 1991	4.86%	\$ 490,000	\$ 225,000	\$ ---	\$ 30,000	\$ 195,000	\$ 10,944	\$ ---
Sewer	November 25, 1992	4.62%	225,000	115,000	---	12,000	103,000	5,036	---
				-----	-----	-----	-----	-----	-----
Total				\$ 340,000	\$ ---	\$ 42,000	\$ 298,000	\$ 15,980	\$ ---
				=====	=====	=====	=====	=====	=====
Revenue Note:									
Electric	June 1, 2002	4.00-5.00%	\$ 580,000	\$ 450,000	\$ ---	\$ 65,000	\$ 385,000	\$ 20,530	\$ ---
				=====	=====	=====	=====	=====	=====
Promissory Note:									
Rural Economic Development	January 17, 2000	0%	\$ 95,720	\$ 47,860	\$ ---	\$ 9,572	\$ 38,288	\$ ---	\$ ---
				=====	=====	=====	=====	=====	=====
General Obligation Note:									
Fire truck	December 13, 2002	4.00%	\$ 106,000	\$ 95,400	\$ ---	\$ 10,600	\$ 84,800	\$ 3,812	\$ ---
				=====	=====	=====	=====	=====	=====

See accompanying independent auditor's report.



**SCHEDULE "5"**

**CITY OF PRESTON  
PRESTON, IOWA**

**BOND AND NOTE MATURITIES  
JUNE 30, 2005**

Year Ending June 30	Revenue Bonds					Revenue Note			Promissory Note		General Obligation Note	
	Sewer		Sewer		Total	Electric		Rural Economic Dev.		Fire Truck		
	Issued August 1, 1991		Issued November 25, 1992			Issued June 1, 2002		Issued January 17, 2000		Issued December 13, 2002		
	Interest Rates	Amount	Interest Rates	Amount		Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2006	4.86%	\$ 30,000	4.62%	\$ 13,000	\$ 43,000	4.25%	\$ 70,000	0%	\$ 9,572	4.00%	\$ 10,600	
2007	4.86%	30,000	4.62%	13,000	43,000	4.45%	75,000	0%	9,572	4.00%	10,600	
2008	4.86%	30,000	4.62%	14,000	44,000	4.65%	75,000	0%	9,572	4.00%	10,600	
2009	4.86%	35,000	4.62%	15,000	50,000	4.85%	80,000	0%	9,572	4.00%	10,600	
2010	4.86%	35,000	4.62%	15,000	50,000	5.00%	85,000		---	4.00%	10,600	
2011	4.86%	35,000	4.62%	16,000	51,000		---		---	4.00%	10,600	
2012		---	4.62%	17,000	17,000		---		---	4.00%	10,600	
2013		---		---			---		---	4.00%	10,600	
Total		\$ 195,000		\$ 103,000	\$ 298,000		\$ 385,000		\$ 38,288		\$ 84,800	

See accompanying independent auditor's report.

**SCHEDULE "6"****CITY OF PRESTON  
PRESTON, IOWA****SCHEDULE OF RECEIPTS BY SOURCE AND  
DISBURSEMENTS BY FUNCTION - ALL GOVERNMENTAL FUNDS  
FOR THE LAST FOUR YEARS**

	2005	2004	2003	2002
	-----	-----	-----	-----
Receipts:				
Property tax	\$ 134,029	\$ 137,691	\$ 135,861	\$ 119,137
Other city tax	55,086	60,174	58,538	52,828
Licenses and permits	2,710	4,421	5,889	6,381
Use of money and property	11,153	29,453	134,037	75,997
Intergovernmental	120,903	128,064	155,120	273,799
Charges for service	25,927	29,365	27,081	27,895
Special assessments	1,353	5,974	1,700	1,384
Miscellaneous	29,722	23,005	7,152	26,473
	-----	-----	-----	-----
Total	\$ 380,883	\$ 418,147	\$ 525,378	\$ 583,894
	=====	=====	=====	=====
Disbursements:				
Operating:				
Public safety	\$ 143,485	\$ 138,002	\$ 220,395	\$ 215,714
Public works	144,658	94,064	78,665	82,190
Health and social services	550	525	918	2,070
Culture and recreation	107,733	89,902	88,753	83,876
Community and economic development	18,489	22,359	31,711	105,761
General government	52,559	57,024	55,317	58,487
Debt service	14,412	16,819	---	---
	-----	-----	-----	-----
Total	\$ 481,886	\$ 418,695	\$ 475,759	\$ 548,098
	=====	=====	=====	=====

See accompanying independent auditor's report.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor  
and Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Preston, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated August 19, 2005. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our report included a disclaimer of opinion on the required supplementary information including Management's Discussion and Analysis.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Preston's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Preston's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described below, we believe items I-A-05 and I-C-05 are material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Preston's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance and other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Preston and other parties to whom the City of Preston may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Preston during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

O'CONNOR, BROOKS & CO., P.C.

Dubuque, Iowa  
August 19, 2005

**CITY OF PRESTON  
PRESTON, IOWA**

**SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2005**

**Part I: Findings Related to the Financial Statements:**

**REPORTABLE CONDITIONS:**

I-A-05 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual at the City has custody of receipts and performs all recordkeeping and reconciling functions for the accounts.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain maximum internal control possible under the circumstances.

Response - The City Council feels they have segregated duties to the extent possible with the existing personnel.

Conclusion - Response accepted.

I-B-05 Credit Cards - The City has credit cards for the use by library employees to purchase items for the library. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation - The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response - We presently have unwritten guidelines. However, we have not established a formal written policy detailing specifics on the use of City credit cards. We will review procedures and guidelines and establish a written policy.

Conclusion - Response accepted.

**CITY OF PRESTON  
PRESTON, IOWA**

**SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2005**

**Part I: Findings Related to the Financial Statements: (Continued)**

I-C-05 Cash Disbursements - We noted a transaction in which a payment was made without adequate supporting documentation. The payment was made to a vendor without the receipt of any goods or services and created a credit with the company. As of August 23, 2005, a credit balance with the vendor remained.

Recommendation - The City should ensure all disbursements are supported by proper documentation including an invoice for the goods or services received.

Response - We will review the supporting documentation for all future disbursements to ensure the disbursements are properly supported.

Conclusion - Response accepted.

I-D-05 Timecards - We noted not all timecards are approved by a department supervisor.

Recommendation - All timecards should be reviewed and approved by a supervisor or other person designated by the City Council.

Response - In the future, all timecards will be reviewed and approved.

Conclusion - Response accepted.

**Part II: Other Findings Related to Statutory Reporting:**

II-A-05 Official Depositories - A resolution naming official depositories has been approved by the City Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

II-B-05 Certified Budget - Disbursements during the year ended June 30, 2005, exceeded the amounts budgeted in the public safety, public works, culture and recreation, debt service, and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

**CITY OF PRESTON  
PRESTON, IOWA**

**SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2005**

**Part II: Other Findings Related to Statutory Reporting: (Continued)**

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

II-C-05 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-05 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-E-05 Business Transactions - No business transactions between the City and City officials or employees were noted.

II-F-05 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-05 Council Minutes - Although minutes of Council proceedings were published, not all were published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation - The City should comply with Chapter 21 of the Code of Iowa and publish minutes as required.

Response - We will publish minutes as required.

Conclusion - Response accepted.

**CITY OF PRESTON  
PRESTON, IOWA**

**SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2005**

**Part II: Other Findings Related to Statutory Reporting: (Continued)**

II-H-05 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-I-05 Revenue Bonds and Notes - The City has established the appropriate accounts required by the sewer revenue bond resolution and the electric revenue note resolution. During the year, the City made the required transfers to the accounts. Even though the required transfers were made for the sewer revenue accounts, the fund balance was still insufficient to meet the sinking and reserve account requirements of the sewer revenue resolutions, so the City has a net earnings violation.

Recommendation - We recommend that the City review the status of the Sewer Fund and investigate ways to improve the cash position to comply with the bond resolution requirement regarding fund balance.

Response - The City staff will discuss with the Council ways to improve the cash position so the City complies with the bond resolution.

Conclusion - Response accepted.

II-J-05 Financial Condition - The Enterprise, Sewer Fund had a deficit balance at June 30, 2005 of \$6,664.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response - We will investigate ways to eliminate this deficit.

Conclusion - Response accepted.